

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Northville District Library</u>	County <u>Wayne/Oakland</u>
Audit Date <u>November 30, 2004</u>	Opinion Date <u>January 19, 2005</u>	Date Accountant Report Submitted To State: <u>March 29, 2005</u>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address <u>27400 Northwestern Highway</u>	City <u>Southfield</u>	State <u>MI</u>	ZIP <u>48034</u>
Accountant Signature 			

Northville District Library

**Financial Report
with Supplemental Information
November 30, 2004**

Northville District Library

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Independent Auditor's Report

To the Members of the Board
Northville District Library
Northville, Michigan

We have audited the accompanying financial statements of each major fund and the government-wide activities of Northville District Library as of and for the year ended November 30, 2004, as listed in the table of contents. These financial statements are the responsibility of Northville District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the government-wide activities of Northville District Library as of November 30, 2004 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison schedules as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

As described in Note 11, Northville District Library has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of December 1, 2003.

To the Members of the Board
Northville District Library

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

January 19, 2005

Northville District Library

Governmental Funds Balance Sheet/Statement of Net Assets November 30, 2004

	Modified Accrual Basis				Full Accrual Basis	
	General Fund - Operating Fund	Special Revenue Fund - Reserve Fund	Debt Service Fund	Total	Adjustments (Note 9)	Government-wide Statement of Net Assets
Assets						
Cash and cash equivalents (Note 2)	\$ 166,208	\$ 353,316	\$ 72,430	\$ 591,954	\$ -	\$ 591,954
Due from other funds	-	115,538	-	115,538	(115,538)	-
Prepaid expenses	15,702	-	-	15,702	-	15,702
Capital assets - Net of accumulated depreciation (Note 3)	-	-	-	-	5,749,309	5,749,309
Total assets	\$ 181,910	\$ 468,854	\$ 72,430	\$ 723,194	5,633,771	6,356,965
Liabilities						
Accounts payable	\$ 66,372	\$ -	\$ -	\$ 66,372	120,992	187,364
Due to other funds	115,538	-	-	115,538	(115,538)	-
Long-term debt (Note 4):						
Due within one year	-	-	-	-	230,000	230,000
Due in more than one year	-	-	-	-	3,525,000	3,525,000
Total liabilities	181,910	-	-	181,910	3,760,454	3,942,364
Net Assets						
Fund balances:						
Reserved for prepaid expenses	15,702	-	-	15,702	(15,702)	
Reserved for debt service	-	-	72,430	72,430	(72,430)	
Designated for facilities and capital projects	-	150,000	-	150,000	(150,000)	
Undesignated	(15,702)	318,854	-	303,152	(303,152)	
Total fund balances	-	468,854	72,430	541,284	(541,284)	
Total liabilities and net assets	\$ 181,910	\$ 468,854	\$ 72,430	\$ 723,194		
Invested in capital assets - Net of related debt					1,994,309	1,994,309
Restricted - Debt service					72,430	72,430
Unrestricted					347,862	347,862
Total net assets					\$ 2,414,601	\$ 2,414,601

Northville District Library

Statement of Governmental Funds Revenue, Expenditures, and Changes in Fund Balances/Statement of Activities Year Ended November 30, 2004

	Modified Accrual Basis				Full Accrual Basis	
	General Fund - Operating Fund	Special Revenue Fund - Reserve Fund	Debt Service Fund	Total	Adjustments (Note 9)	Government- wide Statement of Activities
Revenues						
Property taxes	\$ 1,646,132	\$ -	\$ 373,697	\$ 2,019,829	\$ -	\$ 2,019,829
Penal fines	38,927	-	-	38,927	-	38,927
Rentals and fees - Library user services	21,994	-	-	21,994	-	21,994
Overdue fines	22,512	-	-	22,512	-	22,512
State aid:						
Direct local	10,643	-	-	10,643	-	10,643
System members	10,643	-	-	10,643	-	10,643
Single business tax	3,075	-	-	3,075	-	3,075
Donations	26,992	-	-	26,992	-	26,992
Grant revenue	5,173	-	-	5,173	-	5,173
Interest earnings	4,616	3,208	1,438	9,262	-	9,262
Total revenues	1,790,707	3,208	375,135	2,169,050	-	2,169,050
Expenditures						
Wages and salaries	795,430	-	-	795,430	2,253	797,683
Fringe benefits and payroll taxes	301,332	-	-	301,332	-	301,332
Postage	3,000	-	-	3,000	-	3,000
Operating supplies	16,796	-	-	16,796	-	16,796
Telephone	4,701	-	-	4,701	-	4,701
Copier expense	7,627	-	-	7,627	-	7,627
Insurance	19,185	-	-	19,185	-	19,185
Utilities and janitorial	109,267	-	-	109,267	-	109,267
Repairs and maintenance	52,073	-	-	52,073	-	52,073
Education and training	3,388	-	-	3,388	-	3,388
Capital outlay:						
Books	171,520	-	-	171,520	(171,520)	-
Video rentals	12,959	-	-	12,959	(12,959)	-
Equipment	21,482	-	-	21,482	(21,482)	-
Other	22,957	-	-	22,957	(22,957)	-
Special programs	7,727	-	-	7,727	-	7,727
Legal	665	-	-	665	-	665
Audit fees	4,380	-	-	4,380	-	4,380
Contractual services	9,456	-	-	9,456	-	9,456
Leases of equipment	732	-	-	732	-	732
Advertising and public relations	24,123	-	-	24,123	-	24,123
Auto circular system services	17,951	-	-	17,951	-	17,951
Technology	55,851	-	-	55,851	(39,966)	15,885
Other	12,567	-	-	12,567	17,330	29,897
Depreciation	-	-	-	-	310,984	310,984
Debt service	-	-	387,925	387,925	(212,100)	175,825
Total expenditures	1,675,169	-	387,925	2,063,094	(150,417)	1,912,677
Excess of Revenues Over (Under) Expenditures	115,538	3,208	(12,790)	105,956	150,417	256,373
Other Financing Use - Operating transfer out - General Fund residual	(115,538)	115,538	-	-	-	-
Net Change in Fund Balances	-	118,746	(12,790)	105,956	150,417	256,373
Fund Balances/Net Assets - December 1, 2003	-	350,108	85,220	435,328	1,722,900	2,158,228
Fund Balances/Net Assets - November 30, 2004	\$ -	\$ 468,854	\$ 72,430	\$ 541,284	\$ 1,873,317	\$ 2,414,601

Northville District Library

Notes to Financial Statements November 30, 2004

Note I - Summary of Significant Accounting Policies

The accounting policies of Northville District Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The Northville District Library serves the City of Northville and Northville Township. The Library is governed by a seven-member board. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the governmental activities of the Library. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

In addition to presenting information for the General Fund, the basic financial statements combine all fund activity and present information for the Library as a whole, using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Northville District Library

Notes to Financial Statements November 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

The library reports the following major governmental funds:

General Fund - Operating Fund - The Operating Fund contains the records of the ordinary activities of the Library that are not accounted for in another fund. Operating Fund activities are financed by revenue from general property taxes, state aid, and other sources.

Special Revenue Fund - Reserve Fund - The Reserve Fund is used to account for assets in excess of current operating needs.

Debt Service Fund - The Debt Service Fund is used to account for the annual payment of principal, interest, and expenses in connection with the building debt.

Fund balance has been reserved and net assets have been restricted for debt service in an amount equal to collections of debt millage in excess of bond payments to date.

Northville District Library

Notes to Financial Statements November 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Financial Statement Amounts

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Property Taxes - Property tax receivables are shown as net of allowance for uncollectible amounts. Properties are assessed as of December 31. The related property taxes are billed and become a lien on December 1 of the following year. These taxes are due without penalty during the period December 1 through February 28. Taxes are considered delinquent as of March 1 at which time they are added to the county tax rolls with penalty.

The delinquent real property taxes of the Library are purchased by Wayne and Oakland Counties. The counties sell tax notes, the proceeds of which are used to pay the Library for these property taxes. Oakland County remitted its share of the purchased delinquent real property taxes in June 2004. Wayne County remitted its share of the purchased delinquent real property taxes in July 2004. Both Wayne and Oakland County's shares of delinquent real property taxes have been recorded as revenue in the current year.

The 2003 taxable valuation of the Library district totaled \$1.7 billion, on which ad valorem taxes levied consisted of 0.9785 mills for the Library's operating purposes, and 0.2200 mills for debt service. The ad valorem taxes levied raised \$1.6 million for operations, and \$374,000 for debt service. These amounts are recognized in the respective Operating and Debt Service Funds financial statements as tax revenue.

Capital Assets - Generally, capital assets are defined by the Library as assets with an initial cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Library books, CDs, and audio and visual tapes which comprise the Library's collection are recorded as assets using various estimating techniques. Because of their nature and relevance to the Library's operations, they are capitalized despite individually being below the \$500 capitalization threshold.

Northville District Library

Notes to Financial Statements November 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and improvements	50 years
Furniture and equipment	7-15 years
Collections	10 years

Compensated Absences (Vacation and Sick Leave) - It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the government-wide financial statements.

Long-term Obligations - In the government-wide financial statements, long-term debt is reported as a liability in the governmental activities statement of net assets.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Library is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Northville District Library

Notes to Financial Statements November 30, 2004

Note 2 - Deposits and Investments (Continued)

The Library has designated one bank for the deposit of Library funds. The investment policy for unrestricted funds adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in all of the authorized investment vehicles listed above. The Library's deposits and investment policies are in accordance with statutory authority.

The Library's deposits and investments at November 30, 2004 are reported in the basic financial statements under the following classifications:

Bank deposits (checking accounts)	\$ 58,702
Investments in bank investment pools	533,093
Petty cash or cash on hand	<u>159</u>
Total	<u>\$ 591,954</u>

Deposits

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$83,000. The entire amount was covered by federal depository insurance.

The Library's investments during the year consisted solely of bank investment pools. There was \$533,093 invested in such pools at November 30, 2004. These investments are not categorized into GASB Statement No. 3 risk categories because they are not evidenced by securities that exist in physical or book entry form. The Library believes that the investments in these pools comply with the investment authority noted above. The bank investment pools are regulated by the Michigan Banking Act, and the fair value of the position in the pool is the same as the value of the pool shares.

Northville District Library

Notes to Financial Statements November 30, 2004

Note 3 - Capital Assets

Capital asset activity of the Library's governmental activities was as follows:

	Balance December 1, 2003	Additions	Disposals and Adjustments	Balance November 30, 2004
Governmental Activities				
Capital assets being depreciated:				
Buildings and improvements	\$ 4,639,524	\$ -	\$ -	\$ 4,639,524
Furniture and equipment	539,180	61,447	(34,660)	565,967
Collections	3,138,840	207,437	-	3,346,277
Subtotal	8,317,544	268,884	(34,660)	8,551,768
Accumulated depreciation:				
Buildings and improvements	742,324	92,790	-	835,114
Furniture and equipment	197,061	40,508	(17,330)	220,239
Collections	1,569,420	177,686	-	1,747,106
Subtotal	2,508,805	310,984	(17,330)	2,802,459
Net capital assets being depreciated	\$ 5,808,739	\$ (42,100)	\$ (17,330)	\$ 5,749,309

Note 4 - Long-term Debt

Outstanding Debt

Long-term debt activity of the Library's governmental activities was as follows:

	Balance December 1, 2003	Reductions	Balance November 30, 2004	Due Within One Year
1998 Refunding Bonds, general obligation bonds with interest ranging from 4.00 percent to 6.00 percent, maturing through April 1, 2015	\$ 3,965,000	\$ 210,000	\$ 3,755,000	\$ 230,000

Defeased Debt

During 1998, the Library defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the general purpose financial statements. At November 30, 2004, \$3,610,000 of bonds outstanding are considered defeased.

Northville District Library

Notes to Financial Statements November 30, 2004

Note 4 - Long-term Debt (Continued)

Debt Service Requirements

The annual requirements of governmental fund resources to service the general obligation bonds as of November 30, 2004 are as follows:

<u>Years Ending November 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 230,000	\$ 164,400	\$ 394,400
2006	250,000	150,000	400,000
2007	275,000	134,250	409,250
2008	300,000	117,000	417,000
2009	325,000	101,500	426,500
2010-2014	1,935,000	288,500	2,223,500
2015	<u>440,000</u>	<u>8,800</u>	<u>448,800</u>
Total	<u>\$ 3,755,000</u>	<u>\$ 964,450</u>	<u>\$ 4,719,450</u>

Note 5 - Stewardship, Compliance, and Accountability

Budgetary Information - The annual budget is prepared and adopted by the Library Board and subsequent amendments are approved by the Library Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at November 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on a revenue and expense line item basis; which is in accordance with the State's legal requirement and is the level of classification detail at which expenditures may not legally exceed appropriations. A comparison of actual results of operations to the budget as adopted by the Library Board is included in the budgetary comparison schedules - General Fund - Operating Fund and Special Revenue Fund - Reserve Fund in the required supplemental information section.

Northville District Library

Notes to Financial Statements November 30, 2004

Note 5 - Stewardship, Compliance, and Accountability (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds - The Library has the following significant expenditure budget variances.

	<u>Budget</u>	<u>Actual</u>
General Fund:		
Friends donation expense	\$ -	\$ 22,957
Residual equity transfer out	25,090	115,538

Based on the uncertain nature of donations, the Library does not budget for donation revenue and, as a result, they do not budget for related expenditures. Due to the favorable variances in various line items in the current year, the Library was able to transfer more to the Reserve Fund than budgeted.

Note 6 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for medical benefit claims, participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and participates in the Michigan Municipal Risk Management Authority (state pool member) (the "Authority") for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool and the Authority's state pool programs operate as common risk-sharing management programs for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts. For the state pool program, a portion of the excess insurance coverage is underwritten by the Authority itself.

Note 7 - Postemployment Benefits

The Library provides health care benefits to all regular employees upon retirement in accordance with personnel policy. Currently, two retirees are eligible. The Library includes pre-Medicare retirees and their dependents in its insured health care plan, with no contribution required by the participant. The Library reimburses Medicare insurance premiums for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to \$14,235.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending November 30, 2010.

Note 8 - Defined Benefit Pension Plan

Plan Description

The Library participates in the Municipal Employees’ Retirement System of Michigan (MERS), an agent multiple-employer defined benefit pension plan that covers all regular employees of the Library. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by resolution of the Library Board.

Northville District Library

Notes to Financial Statements November 30, 2004

Note 8 - Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For the year ended November 30, 2004, the Library's annual pension cost of approximately \$74,000 for the plan was equal to the Library's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.7 percent per year, and (c) no postretirement benefit increases. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 33 years.

Three-year trend information for the years ended November 30 is as follows:

	2002	2003	2004
Annual pension cost (APC)	\$ 52,000	\$ 81,000	\$ 74,000
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -

Three-year trend information for the actuarial valuation as of December 31 is as follows:

	2001	2002	2003
Actuarial value of assets	\$ 627,337	\$ 702,542	\$ 831,409
Actuarial accrued liability (AAL) (entry age)	\$ 926,231	\$ 975,218	\$ 1,144,316
Unfunded AAL (UAAL)	\$ 298,894	\$ 272,676	\$ 312,907
Funded ratio	68%	72%	73%
Covered payroll	\$ 501,058	\$ 473,280	\$ 541,672
UAAL as a percentage of covered payroll	60%	58%	58%

Northville District Library

Notes to Financial Statements November 30, 2004

Note 9 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements

Total fund balance and the net change in fund balance of the Library's funds differs from net assets and change in net assets of the governmental activities reported in the statement of net assets and statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the fund balance sheet and statement of revenue, expenditures, and changes in fund balance. The following is a reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

Total Fund Balance - Modified accrual basis	\$ 541,284
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Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources, and are not reported in the funds	5,749,309
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Long-term liabilities are not due and payable in the current period and are not reported in the funds	(3,755,000)
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Interest payments on long-term liabilities are not due and payable in the current period and are not reported in the funds	(37,550)
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Compensated absences are included as a liability	<u>(83,442)</u>
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Total Net Assets - Full accrual basis	<u>\$ 2,414,601</u>
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Northville District Library

Notes to Financial Statements November 30, 2004

Note 9 - Reconciliation of Fund Financial Statements to Government-wide Financial Statements (Continued)

Net Change in Fund Balances - Modified accrual basis	\$ 105,956
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Capital outlay	268,884
Depreciation	(310,984)

Losses resulting from disposals of capital assets are reported in the statement of activities, but not in the fund statements	(17,330)
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Increase in accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	(2,253)
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Decrease in accrued interest reported as revenue in the statement of activities, but not in the fund statements	2,100
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Repayments of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	<u>210,000</u>
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Change in Net Assets - Full accrual basis	<u>\$ 256,373</u>
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Northville District Library

Notes to Financial Statements November 30, 2004

Note 10 - Community Foundation Endowment Fund

The Library participates in an endowment program sponsored by the Community Foundation for Southeastern Michigan (an unrelated nonprofit foundation). The Library has established a permanent endowment fund held by the Community Foundation for Southeastern Michigan. The purpose of the endowment fund is to provide unrestricted operating support for the Library from the endowment earnings. Funds are donated by outside donors for the benefit of the organization and are held and managed by the Community Foundation for Southeastern Michigan. Earnings are available for distribution to the organization for operations at the discretion of the Foundation; therefore, interest and principal balances are not reflected in the financial statements of the Library.

Note 11 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Northville District Library has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). Certain significant changes in the statement include the following:

- Financial statements prepared using full accrual accounting for all of Northville District Library's activities
- Capital assets in the government-wide statement of net assets includes assets that would previously have been reported in the General Fixed Assets Account Group.
- The government-wide statement of net assets includes debt which had been previously reported in the General Long-term Debt Account Group.

Required Supplemental Information

Northville District Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund Operating Fund Year Ended November 30, 2004

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenues				
Property taxes:				
Township support	\$ 1,371,089	\$ 1,371,089	\$ 1,371,086	\$ (3)
City support	279,101	279,101	278,487	(614)
Tax refunds	(7,000)	(7,000)	(3,441)	3,559
State, local, and other:				
Direct local	11,500	11,500	9,786	(1,714)
System members	11,500	11,500	11,500	-
Penal fines	26,000	26,000	38,927	12,927
Universal service fund	-	-	2,112	2,112
Single business tax	-	-	3,075	3,075
Interest earnings	5,000	5,000	4,616	(384)
Library fines	23,000	23,000	22,512	(488)
Rentals:				
Video rentals	9,000	9,000	10,363	1,363
Library book rentals	1,000	1,000	859	(141)
Room rental	300	300	550	250
Printing services:				
Copier revenue	3,500	3,500	4,437	937
Printer revenue	1,700	1,700	3,673	1,973
Donations:				
Private donations	-	-	4,094	4,094
Friends donations	-	-	22,303	22,303
Gift books	-	-	595	595
Grants	-	-	5,173	5,173
Total revenues	1,735,690	1,735,690	1,790,707	55,017
Expenditures				
Personnel:				
Wages and salaries	788,500	788,500	795,430	(6,930)
Fringe benefits	250,000	250,000	238,585	11,415
Payroll taxes	60,400	60,400	58,609	1,791
Meetings, conferences, and mileage	5,000	5,000	4,138	862
Education and training	6,000	6,000	3,388	2,612
Workers' compensation	3,000	3,000	1,545	1,455
Payroll services	4,000	4,000	4,422	(422)
Membership fees	3,000	3,000	1,841	1,159

Northville District Library

Required Supplemental Information Budgetary Comparison Schedule - General Fund Operating Fund (Continued) Year Ended November 30, 2004

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Expenditures (Continued)				
Building and utilities:				
Building maintenance	\$ 69,000	\$ 69,000	\$ 50,408	\$ 18,592
Liability and property insurance	20,000	20,000	19,185	815
Electric	61,000	61,000	44,846	16,154
Housekeeping	35,000	35,000	37,763	(2,763)
Gas	15,000	15,000	18,095	(3,095)
Contractual services	6,500	6,500	5,034	1,466
Maintenance and repair of equipment	-	-	1,665	(1,665)
Telephone	6,000	6,000	4,701	1,299
Housekeeping supplies	5,000	5,000	3,862	1,138
Water	6,000	6,000	4,701	1,299
Acquisitions:				
Books and subscriptions	175,000	175,000	169,356	5,644
Operating supplies	18,000	18,000	16,796	1,204
Electronic products	22,000	22,000	21,482	518
Video rental purchases	7,000	7,000	12,959	(5,959)
Book rental purchases	1,000	1,000	1,374	(374)
Support services:				
Technology	48,000	48,000	46,707	1,293
Auto circular system service	19,000	19,000	17,951	1,049
Telecommunications	14,000	14,000	9,144	4,856
The Library Network/Baker Taylor fees	9,000	9,000	8,430	570
Special programs	8,000	8,000	7,727	273
Copier expense	8,000	8,000	7,627	373
Postage	3,000	3,000	3,000	-
Other:				
Legal services	5,000	5,000	665	4,335
Leased equipment	1,200	1,200	732	468
Public relations	22,000	22,000	24,008	(2,008)
Auditing services	6,000	6,000	4,380	1,620
Advertising	1,000	1,000	115	885
Grant	-	-	751	(751)
Donation expenses:				
Book donation expense	-	-	790	(790)
Friends donation expense	-	-	22,957	(22,957)
 Total expenditures	 1,710,600	 1,710,600	 1,675,169	 35,431
 Residual equity transfer out	 25,090	 25,090	 115,538	 (90,448)
 Net Change in Fund Balance	 \$ -	 \$ -	 \$ -	 \$ -

Northville District Library

Required Supplemental Information Budgetary Comparison Schedule - Special Revenue Fund - Reserve Fund Year Ended November 30, 2004

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenues - Interest earnings	\$ 5,000	\$ -	\$ 3,208	\$ 3,208
Residual Equity Transfer In	<u>25,090</u>	<u>25,090</u>	<u>115,538</u>	<u>90,448</u>
Net Change in Fund Balance	<u><u>\$ 30,090</u></u>	<u><u>\$ 25,090</u></u>	<u><u>\$ 118,746</u></u>	<u><u>\$ 93,656</u></u>

January 19, 2005

Library Board Members
Northville District Library
212 West Cady Street
Northville, MI 48167

Dear Board Members:

We have recently completed the audit of the financial statements for the Northville District Library for the year ended November 30, 2004. In addition to the audit report, we offer the following comments and recommendations for your consideration:

GASB 34: New Reporting Model

As previously communicated to you, Governmental Accounting Standards Board (GASB) Statement 34 is now here! You will notice a very different look to the financial statements.

Although there are several differences between this new reporting model and the old model, the major changes are as follows:

- Management's Discussion and Analysis (MD&A): This narrative and analysis gives an overview of the entity's overall financial position and results of operations, with a strong emphasis on comparing the financial position from one year to the next. Given that there is only one year of information available under the new format, management has concluded not to include the MD&A as part of the current year financial statements. You can look forward to this analysis in next year's financial statements.
- Government-wide Financial Statements: These additional statements adjust the normal fund-based statements into a combined, full-accrual format. This allows a financial statement reader to view the Library from a longer-term perspective. These statements show capital assets, as well as long-term debt.
- Budget Comparison: A financial statement reader will now be able to view not only the actual revenue and expenditures of the Library as compared to the current budget, but also as compared to the original budget. In the Library's case, the original budget and final budget are identical this year.

The GASB believes this new model will provide a more complete picture of the financial position of governmental entities.

Fund Balances

During the current year, the Library transferred approximately \$116,000 to the Reserve Fund from the Operating Fund, which increased the Reserve Fund fund balance to approximately \$469,000. This level of fund balance represents 28 percent of the annual expenditures of the Operating Fund. We commend the Library on being able to transfer this amount and encourage the Library to develop a long-range plan to determine the adequacy of this level of fund balance reserve.

As you know, the Library's operating millage is capped and also is subject to annual reductions as a result of the Headlee Amendment. Property taxes account for 92 percent of the Library's operating revenue. While the Township experiences growth, the Library will continue to receive property taxes that increase by more than inflation. However, once the Township's growth stabilizes, the Library's property taxes will not be able to increase by more than inflation. Given all of the increases in operating costs, including large increases in health care and pension costs, the Library will be challenged to maintain a healthy fund balance.

Public Accounting Update

During the current audit, a new standard related to the detection of fraud in an organization was implemented. The new standard adds greater guidance related to the steps an auditor must perform in assessing the risk of fraud. It also specifies that non-accounting personnel must be included in an auditor's inquiries related to fraud.

Postemployment Benefits

There are two new accounting pronouncements that were recently issued by the Governmental Accounting Standards Board. Both standards relate to accounting and disclosures related to postemployment benefits other than pensions. In short, these pronouncements will require communities to account for and disclose liabilities related to health care promises to retirees, much in the same way that pensions are handled. Starting in 2009, the Library will be required to periodically measure its retiree health care liability through actuarial valuations or by using an alternative method available to employers with 100 or fewer employees. These valuations will also compute an "annual required contribution." The annual required contribution is the amount the actuary believes is necessary to fund the benefit over a period of 30 years or less.

We would like to note that the Library's retirement contribution will be increasing during the next fiscal year by approximately \$1,000 per month. Due to these increasing contributions and the increase in health care costs, the Library needs to consider pre-funding this liability or designating fund balance each year to acknowledge the long-term liability related to these new accounting pronouncements.

Library Board Members
Northville District Library

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January 19, 2005

We would like to thank Julie Herrin and Judith Williams for the courtesy and cooperation extended to us during the audit. If you have any questions or require assistance in the implementation of our recommendations, please feel free to contact us.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, reading "Beth Bialy". The signature is written in a cursive, flowing style.

Beth A. Bialy